

26 February 2021

## **SCALES CORPORATION'S SOUND FOUNDATIONS GENERATE STRONG 2020 OPERATING PERFORMANCE**

### **Highlights – 12 months to 31 December 2020**

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Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2020 full year results. Profit for the Year was \$26.6 million (FY2019: \$121.6 million). Earnings per share for FY2020 were 15.0 cents per share (FY2019: 84.2 cents per share).

- Group FY2020 financial results:
  - Revenue of \$470.7 million (FY2019: \$484.6 million).
  - Reported NPAT of \$26.6 million (FY2019: \$121.6 million)<sup>1</sup>.
  - Underlying<sup>2</sup> EBITDA of \$53.9 million (FY2019: \$52.7 million).
  - Underlying<sup>2</sup> NPAT of \$33.8 million (FY2019: \$36.4 million).
- Mr Apple own-grown export volumes of 3,915k TCEs<sup>3</sup>, up 2 per cent on 2019 export volumes and up 3% on forecast.
- Food Ingredients Underlying EBITDA of \$23.1 million (FY2019: \$13.5 million), an exceptional performance.

Scales Corporation Chair Tim Goodacre noted: “We are extremely proud of the hard work and unity displayed by the entire Scales team in a challenging and disruptive year. This unity enabled Scales to continue trading throughout lockdowns, without New Zealand government wage subsidies, and still deliver a profit result consistent with our originally provided guidance.”

“The diversified strategy of the Group provided us with a solid base from which to operate. The divisional mix of our earnings differed compared to prior years, with an exceptional performance recorded by the Food Ingredients division.”

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<sup>1</sup> FY2019 results include the gain on sale of Polarcold (\$68.9m net of interest) and gain on sale and revaluation gain on the establishment of Meateor (of \$9.8m and \$9.8m respectively).

<sup>2</sup> Underlying results exclude some New Zealand International Financial Reporting Standards (NZ IFRS) non-cash and other adjustments. A reconciliation between Net Profit and Underlying Net Profit, EBITDA and Underlying EBITDA is provided in Appendix 1 of our annual results presentation pack.

<sup>3</sup> Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight.

#### **Scales Corporation Limited**

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“Mr Apple benefited from geographical and varietal diversification. Volumes and prices in Asia and the Middle East were adversely affected by the timing of lockdowns on consumers, but it benefitted from firm European and UK markets. Food Ingredients produced a stand-out result, benefitting from a strong growth in global petfood demand together with geographical diversity in its supply network and sources of proteins.”

Andy Borland, Managing Director of Scales Corporation, commented: “The Board and senior leadership team are proud of the dedication and courage exhibited by all staff during a demanding year. We would not have been able to produce our results without a unified effort by all business divisions.”

“Notwithstanding the challenges thrown at us due to COVID-19, the group continued to advance its strategic plan and invest in growth opportunities. Mr Apple completed phase 2 of its orchard redevelopment program, finalised the upgrade of its seasonal worker accommodation and has recently completed the build of its new purpose-built coolstore at Whakatu. The coolstore was finished on time and on budget and is expected to provide operational and logistics efficiencies. Shelby entered into a new toll processing agreement in Dodge City, Kansas, providing us with additional operational resource in the USA to satisfy demand.”

“We have continued to make progress on our sustainability journey, and are excited to be preparing our inaugural climate change report for the 2020 annual report.”

“Scales also continues to be in a strong financial position, with net cash at 31 December 2020 of \$97.6 million. This provides us with a solid base from which to invest in future growth opportunities, both organic and acquisitive.”

During the year Scales declared dividends of 19.0 cents per share<sup>4</sup>. As in previous years, the Board expects to declare a final dividend in respect of FY2020 in May, with payment in July.

## **Divisions**

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### ***Horticulture***

Underlying FY2020 EBITDA for the Horticulture division was \$31.4 million (FY2019: \$39.7 million).

Mr Borland commented “Mr Apple once again delivered record own-grown apple volumes of 3,915k TCEs, an excellent effort by the orchard team. Disruption to global supply chains and the influence on consumer behaviour as a result of global COVID-19 lockdowns impacted each market differently. Whilst Asia and the Middle East were adversely impacted (partially also due to the overlap of lockdowns and the Chinese New Year sales window), sales to Europe and the UK remained firm. Mr

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<sup>4</sup> Scales declared a final dividend of 9.5 cents per share for FY2019 on 5 May 2020, which was paid on 10 July 2020 and declared an interim dividend of 9.5 cents per share for FY2020 on 9 December 2020, which was paid on 15 January 2021.

Apple's diversified sales network enabled it to mitigate these market specific impacts. We also exhibited growth of our high-value premium varieties, with a 4 per cent increase in these volumes compared to last year."

"Phase 2 of our orchard redevelopment programme was completed, with over 140 hectares of orchard having been redeveloped between 2018 and 2020, predominantly in the high-value, branded, Dazzle™ variety. Plantings adopt new '2-dimensional' techniques enabling efficiencies in pruning, thinning and picking. We anticipate these orchards will reach commercial scale from 2023 onwards."

"Mr Apple is focused on opportunities to maintain or improve current margins. The completion of the new Whakatu coolstore, expected to provide operational and logistics efficiencies, is an example of this. Acknowledging that the environment for the availability and cost of labour has changed, the company intends to accelerate further automation initiatives, particularly in post-harvest operations, during FY2021."

### ***Food Ingredients***

The Food Ingredients division generated Underlying EBITDA of \$23.1 million (FY2019: \$13.5 million), an increase of 71 per cent.

Mr Borland said "This was an exceptional performance by Food Ingredients, with it taking a considerable step towards its long-run EBITDA target of \$25 million. The division took advantage of the growing global petfood market, whilst also benefiting from its geographical and protein diversification strategies."

"Volumes of petfood ingredients sold increased by 4 per cent compared to FY2019 and the division continues to take advantage of market growth through the addition of a new toll processing facility in the United States. We are excited for the future of this division and continue to actively pursue organic and external growth opportunities to diversify and expand its geographical reach, product range and protein offering."

### ***Logistics***

The Logistics division delivered Underlying EBITDA of \$3.4 million (FY2019: \$3.3 million), an increase of 4 per cent.

Mr Borland commented "This was a solid performance by the Logistics division, in a year where activity was impacted by global supply chain disruptions. The division benefitted from a focus on the agribusiness sector."

## Outlook

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Mr Goodacre noted: “The start of 2021 has not been without its own challenges. Inclement national weather events have taken place over the key growing period and global supply chains continue to be disrupted, with ongoing delays in shipping and increased costs.”

“As a result, the Board has amended Underlying Net Profit guidance for the group to be between \$27.5 million and \$33.5 million, implying an Underlying EBITDA range of between \$46.5 million and \$53.5 million. This reflects:

- Significantly lower levels of stone fruit exports from the Otago region impacting on Scales Logistics.
- The Tasman region expecting a significantly lower level of pip fruit exports impacting on third party export volumes for Mr Apple and Fern Ridge.
- Mr Apple is now expecting that own-grown volumes will be lower than forecast.
- Ongoing delays in shipping resulting in higher port side charges impacting on all Group business units.”

Mr Goodacre also observed “the 2021 apple harvest has begun with early fruit shipments made to Asia. Food Ingredients is also expected to continue to take advantage of the growing global petfood market.”

### **Contact**

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### **About Scales Corporation**

Scales Corporation is a diversified agribusiness group. It currently comprises three operating divisions: Horticulture, Food Ingredients and Logistics. The company’s diverse spread of activities gives Scales broad exposure to New Zealand’s agribusiness sector. Scales Corporation was founded in 1897 as a shipping business by George Herbert Scales. Find out more at [www.scalescorporation.co.nz](http://www.scalescorporation.co.nz).